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UNCLAS SECTION 01 OF 02 TAIPEI 002860

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TAGS: ELTN ECON PGOV TW  
SUBJECT: ETC FIASCO BRINGS DOWN MOTC MINISTER

REF: A. TAIPEI 729

1B. TAIPEI 2816

11. (SBU) Summary: An August 3 ruling from Taiwan's Supreme Administrative Court ensured that the Ministry of Transportation and Communications (MOTC) would have to either hold a second bid process for the troubled electronic highway toll collection (ETC) system or take over the system itself from the Far Eastern Toll Collection Company (FETC). The future of the project was further complicated when Far Eastern Group, FETC's largest shareholder, offered to donate its 56.5 percent stake in FETC to the Taiwan authorities. MOTC Minister Kuo Yao-chi resigned over differences with Premier Su Tseng-chang on how to handle the project. The ETC system and other build-operate-transfer (BOT) projects will continue to cause problems for her successor Tsai Duei. End summary.

Troubled from the Start

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12. (U) In February 2004, Taiwan awarded the ETC contact, which has been valued at up to NT\$10 billion (about US\$310 million), to FETC, a member of Douglas Hsu's Far Eastern Group, which includes major textile interests and cell phone provider Far Eastone. FETC beat out two other bidders in the final round. Under the BOT contract, FETC sells and installs on-board units (OBUs) with prepaid toll cards so that vehicles can use automatic toll collection lanes on Taiwan's freeways. The system went into operation on two of Taiwan's busiest freeways February 10, 2006. Initially, FETC was widely criticized for charging too much for the OBUs. Drivers have been reluctant to adopt the new system, leading to complaints that ETC-dedicated traffic lanes were empty while traffic on other lanes worsened.  
(ref A)

13. (U) MOTC's ETC problems worsened on February 24, 2006, when the Taiwan High Administrative Court ruled that its decision to award the contract to FETC was unfair and against public interest. Yu-Tung Information Technology Co., the firm that came in second in bidding for the project, had filed the suit that led to the ruling. To comply, MOTC would have to take the BOT project away from FETC and either reopen the contract for bidding or take over the toll collection system itself. MOTC's Taiwan Area National Expressway Bureau in cooperation with FETC filed an appeal with the Supreme Administrative Court on March 24. In the meantime, uncertainty about the system's future increased driver reluctance to adopt the new system.

**¶4.** (U) On August 3, the Supreme Administrative Court denied the appeal. The ruling confirmed that MOTC must take over the project itself or rebid it, even though FETC has already built much of the infrastructure. After the ruling, MOTC began consultations with FETC, Yu-Tung, and Acer (another bidder on the project) to develop a plan on how to proceed. It subsequently formed a new committee to draw up terms to rebid the project, hoping to finalize the terms by the Lunar New Year holiday in February 2007. In the meantime, FETC has continued to operate the system to protect the interests of the 220,000 motorists who had already purchase OBUs.

Far Eastern Throws a Curve

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**¶5.** (U) A surprising move by Far Eastern Group has further complicated MOTC's efforts to deal with the troubled project. On August 11, Far Eastern Group announced that it would donate its holding in FETC to the Taiwan government and not seek any compensation. A Far Eastern Group spokesman said that the donation was intended to restore the company's reputation and end concerns that public funds would be used to buy the system from FETC. The company may have also been trying to improve FETC's chances of winning the next bid and continuing to manage of the system. With Far Eastern's 56.5 percent stake worth NT\$1.4 billion, the government would become FETC's largest shareholder. (Note: The other shareholders are TECO Group, Mitac Inc., and Systex Corp., all Taiwan firms with equal shares of 14.5 percent of FETC equity. End note.)

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**¶6.** (U) MOTC continues to evaluate the implications of accepting Far Eastern's donation. It is not clear whether FETC will be able to participate in the next bid process if the donation is accepted. Of the other two bidders from the last round, Yu-Tung has indicated that it will compete again, but Acer will not. If FETC is excluded, Yu-Tung is likely to be the only qualified bidder.

Kuo Calls It Quits

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**¶7.** (U) Disagreement over how to handle the ETC case caused MOTC Minister Kuo Yao-chi to resign. She had stated on August 4, the day after the ruling, that the authorities would take over the ETC and assign state-owned Chung Hwa Telecom to run the system. However, Premier Su subsequently announced that the authorities would not take over the ETC system but would consult with the original bidders on how to proceed. Kuo tendered her resignation to Su on August 7. Su initially indicated he would try to convince Kuo to stay on, but eventually accepted her resignation. On August 15, Su appointed Vice Minister Tsai Duei, an MOTC technocrat, to replace Kuo (ref B).

Comment - BOT Blues Play On

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**¶8.** (SBU) Kuo's 195-day tenure as MOTC Minister was not the first to be troubled by BOT projects. Her predecessor Lin Ling-san was forced out of office at least in part because of problems with the ETC as well as the high-speed rail and Kaohsiung Mass Rapid Transit System BOT projects. These problems will persist. The ETC mess will take MOTC months to sort out. It will likely result in serious financial losses for the Taiwan authorities, FETC shareholders or both as well as continued inconvenience for motorists before the system is finally salvaged. The high-speed rail is slated to begin operations in October after a one-year delay, but there have been reports that it may not be ready

to offer full service by that time. Some observers have speculated in the press that Premier Su actually wants to appoint Lin Hsi-yao or Wu Tze-cheng, both currently Ministers without Portfolio, to be MOTC Minister and that he appointed Tsai Duei to take the fall for future problems with the ETC and high-speed rail. Regardless of the accuracy of such speculation, anyone who serves as Taiwan's Minister of Transportation and Communications will have to deal with cleaning up BOT-related messes for many months to come.

YOUNG